

Message Text

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PAGE 01 ISLAMA 03645 041102 Z

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ACTION AID-07

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 9088

INFO AMEMBASSY DACCA

C O N F I D E N T I A L ISLAMABAD 3645

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E. O. 11652: GDS

SUBJ: PAKISTAN DEBT DIVISION

REFS: (A) STATE 083700 (B) ISLAMABAD 3305

(C) GENEVA 1946 (NOTAL) (D) STATE 077179

(E) STATE 084339

SUMMARY: MISSION RESPONDS TO WASHINGTON QUESTIONS

ON PAKISTAN DEBT. ACTION REQUESTED: NONE. END

SUMMARY.

1. RE PARA. ONE, REF A, REF B PROPOSAL WAS NOT BASED ON SPECIFIC DISCUSSIONS WITH GOP OFFICIALS. WE JUDGE THAT GOP COULD GET OFF POLITICAL HOOK IF PROJECT LOANS WERE TAKEN CARE OF. WE THINK GOP WOULD BE MOST RELUCTANT TO ACCEPT PERMANENTLY LIABILITY FOR ALL PROGRAM AND PL 480 ASSISTANCE. HOWEVER, THIS RELUCTANCE MIGHT POSSIBLY BE OVERCOME IF ACCEPTANCE THIS LIABILITY WAS COUPLED WITH LONG TERM RESCHEDULING WHICH TOOK FACT OF LIABILITY FULLY INTO ACCOUNT. IF CONSORTIUM GIVES LONG TERM RESCHEDULING TO BOTH BANGLADESH AND PAKISTAN, THEN QUESTION OF EXACTLY WHICH LOANS (ASIDE FROM CLEARLY IDENTIFIABLE PROJECTS) EACH RETAINS IN PORTFOLIO

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ISLAMA 03645 041102 Z

BECOMES LESS IMPORTANT.

2. RE PARA . 2, REF A, CHARGE NOTES THAT IN DISCUSSION REPORTED REF C, BHUTTO' S INITIAL REACTION TO INTERVENTION BY CHARGE, IN WHICH CHARGE NOTED WILLINGNESS OF CONSORTIUM TO PROVIDE GENEROUS SHORT- TERM RESCHEDULING IN CONNECTION WITH ADDITIONAL YEAR' S RETENTION OF LIABILITY, WAS A POSITIVE EXPRESSION OF WILLINGNESS TO BE COOPERATIVE. DIRECTION OF CONVERSATION QUICKLY CHANGED BY INTERVENTION QAMARUL ISLAM ABOUT POLITICAL PROBLEMS WITH RETENTION LIABILITY. WE NOTE ALSO THAT AMBASSADOR SULTAN KHAN TOLD ARMSTRONG (REF D) OF PROBLEM QUOTE TAXPAYERS UNQUOTE WOULD HAVE WITH CONTINUATION RESPONSIBILITY. FINANCE MINISTER MADE SAME POINT IN CONVERSATION HERE, REF C. THIS SUGGESTS THAT UNDERSTANDING OF GENEROUS ASPECT CONSORTIUM PARIS PROPOSAL (WILLINGNESS PROVIDE \$108 MILLION SHORT TERM RESCHEDULING) HAS NOT BEEN FULLY UNDERSTOOD BY MANY PAKISTANI OFFICIALS.

3. WE ARE NOT AWARE OF SPECIFIC CONTENTS OF WHAT WE UNDERSTAND WAS STRONG LETTER FROM PRESIDENT BHUTTO TO MACNAMARA SEEKING HIS PERSONAL INTERVENTION. WE GUESS THAT CARGILL LETTER, REF E., MAY REFLECT CONSIDERATION THAT LETTER. WE ARE NOT IN A POSITION TO JUDGE ACCEPTABILITY PROPOSED QUOTE HOLD UNQUOTE FROM PROCEDURAL VIEW. HOWEVER, IT MIGHT BE POSSIBLE AT MAY 30 HEADS OF DELEGATION MEETING TO LOOK AT CARGILL PROPOSAL AS FALLBACK POSITION, USING TIME BEFORE JUNE 30 TO MAKE ANOTHER TRY WITH GOP FOR ONE YEAR EXTENTION LIABILITY IN EXCHANGE FOR GENEROUS SHORT- TERM RESCHEDULING. WE DO NOT KNOW HOW MUCH FLEXIBILITY THERE IS IN PAKISTAN POSITION. WE DO, HOWEVER, THINK POSSIBILITY OF GOP' S ACCEPTANCE OF ANOTHER YEAR' S LIABILITY WOULD BE ENHANCED IF SUGGESTION REF B ON PROJECT ASSISTANCE COULD BE IMPLEMENTED. THEY WOULD BE FURTHER ENHANCED IF GOP COULD FEEL THAT CONSORTIUM CONDITIONALITY ON BANGLADESH WOULD NOT BE LIFTED SHORT OF AGREEMENT IN PRINCIPLE THAT DEBT SHOULD BE DIVIDED AND AGREED TO INITIATION OF A PROCESS FOR DIVISION EXERCISE, (SUCH AS APPOINTMENT OF MEDIATOR). IF CONSORTIUM FEELS SUCH CONDITIONALITY ON BANGLADESH COUNTERPRODUCTIVE, IT IS POSSIBLE THAT PAKISTAN WOULD ACCEPT AS SUBSTITUTE ASSURANCES FROM

CONFIDENTIAL

PAGE 03 ISLAMA 03645 041102 Z

CONSORTIUM MEMBERS AND IBRD OF FIRM RESOLUTION TO ATTEMPT TO ACHIEVE DIVISION WITH BANGLADESH IN COURSE OF COMING YEAR. PAKISTAN WILL OF COURSE, BE ARGUING FOR A DECISION NOW THAT THEY WOULD BE ABSOLVED OF RESPONSIBILITY AFTER ONE YEAR LIABILITY. SOBER

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